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BUDGETARY AND FINANCE COMMITTEE
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Item 4 of the agenda of the Budgetary
and Finance Committee

ADOPTION OF THE REPORT OF THE BUDGETARY AND FINANCE COMMITTEE TO THE GOVERNING COUNCIL

Draft report of the Budgetary and Finance Committee

Rapporteur: Ms. Heather DOWSETT (New Zealand)

CHAPTER II. United Nations Population Fund

1. For its consideration of agenda item 4, the Budgetary and Finance Committee had before it the following documents: (a) Annual financial review, 1991 (DP/1992/32); and (b) Audit reports (DP/1992/33). As was explained during the debate, the Advisory Committee on Administrative and Budgetary Questions (ACABQ) had chosen not to issue a report on the United Nations Population Fund (UNFPA) to this session of the Council.

2. Copies of document A/46/5/Add.7, containing the interim report of the Board of Auditors on the United Nations Population Fund for the first year of the biennium 1990-1991, were also made available to the Budgetary and Finance Committee.

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3. In introducing the UNFPA item and the Annual financial review, 1991 (DP/1992/32), the Deputy Executive Director (Policy and Administration) informed the Committee that UNFPA's total income in 1991 was $224 million, an increase of 5.5 per cent over the total income in 1990. This was $13.9 million lower than the $237.9 million that had been projected the previous year. This shortfall was largely due to unfavourable exchange rates during the course of the year. Total expenditures in 1991 were $229.1 million, resulting in an excess of expenditure over income of $5.1 million. By carrying forward a deficit of $0.4 million from 1990, the cumulative excess of expenditure over income at the end of 1991 was $5.5 million.

4. He mentioned that the ratio of the administrative and programme support services (APSS) budget to overall expenditures increased from 17.1 per cent in 1990 to 18.5 per cent in 1991. This was largely a result of increases in field expenditure rather than headquarters expenditure. He added that UNFPA had introduced certain economy measures resulting in savings of $5 million during the biennium 1990-1991. Thus, while the Governing Council had approved net appropriations in the amount of $85 million for the biennium 1990-1991, final expenditures of the APSS budget for 1990-1991 were brought down to $80 million.

5. The Deputy Executive Director reported that UNFPA's liquid assets totalled $75.3 million at the end of 1991, as compared to $84.2 million one year before. Both amounts included UNFPA's operational reserve of $45 million, as set by the Council in 1991. He pointed out that at least $1 million of the $5.5 million in overexpenditure for the biennium 1990-1991 would be offset by reductions in the approved APSS budget of 1992. The remaining $4 million would come out of 1992 programme resources.

6. He said that trust fund income in 1991 totalled $8.2 million compared to $11.8 million in 1990, while trust fund expenditures were $11.5 million, about the same as in 1990. As a result, the unexpended balance of trust fund resources was reduced from $10.9 million at the end of 1990 to $7.6 million at the end of 1991.

7. Turning to audit matters, the Deputy Executive Director was pleased to report that considerable progress had been made. For example, all United Nations executing agencies had submitted audited financial statements for 1991 on time, except the United Nations Food and Agriculture Organization (FAO), which had requested an extension on technical grounds. With respect to the projects executed by the United Nations and its regional commissions as well as by all other United Nations organizations audited by the United Nations Board of Auditors, it was explained that no separate audit statements would be required by the

External Auditors, since the Board audits these organizations as well as UNFPA itself. As a result, UNFPA did not expect the Board of Auditors to qualify its audit opinion of the financial statements of the United Nations organizations executing UNFPA-funded projects. The Deputy Executive Director further pointed out that UNFPA was proposing a new financial regulation (regulation 8.9) covering standard basic agreements with executing agencies, as contained in paragraph 13 of document DP/1992/33.

8. With reference to the interim audit report for the first year of the biennium 1990-1991, the Deputy Executive Director said that UNFPA agreed with most of the observations made by the Board of Auditors. In response to the observations of the Auditors, UNFPA was formulating new procedures relating to the calculations of overheads payable to NGOs. Similarly, UNFPA planned to clarify its guidelines on pre-project activities and the activities to be financed under umbrella projects.

9. With respect to internal financial controls, he stressed the important role played by the UNFPA Representative, and assisted by the UNFPA Country Director, in ensuring financial accountability and responsibility. Existing accounting and financial procedures had recently been clarified, including those necessary for the successful implementation of increased decentralized approval authority to the field. UNFPA had also taken steps to ensure that the certification and approval functions would not be carried out by the same staff members. Thus, the UNFPA Representative, as the highest ranking UNFPA official in any field office, would normally designate the UNFPA Country Director as certifying officer while retaining for him/herself the function of approving officer.

10. Finally, the Deputy Executive Director noted UNFPA's intention of adding cost-sharing to its existing funding mechanism. Such an arrangement would be largely patterned on that currently used by UNDP and governed by a similar regulation. UNFPA intended to propose such a regulation to the Council for its approval at its fortieth session. He thanked the current Board of Auditors for the many useful suggestions they had made to UNFPA over the course of the last three years.

Summary of Discussion in the Committee

11. The delegates thanked the Deputy Executive Director for his comprehensive statement, which clarified a number of issues before the Committee.

12. Many delegations cautioned UNFPA on its income projections, which they felt were rather ambitious. They underscored the need for realism and stressed that the Fund should not create undue expectations for recipient governments about the level of programme resources likely to be made available over the course of the next few years. Speaking on behalf of a group of donor countries, one delegate stressed that even the currently projected annual resource increase of 8 per cent instead of 10 per cent for 1993 and onward seemed too optimistic, but at the same time stressed that the countries on whose behalf he spoke fully endorsed the goal of the Amsterdam Declaration of mobilizing $9 billion per year for population activities by the year 2000.

13. Most delegates voiced concern about the overexpenditure in 1991. Some delegations voiced reservations about UNFPA's financial management, recommending that UNFPA should keep interested parties informed on a quarterly basis on developments in income and expenditure projections. However, another delegation felt that this might constitute too detailed an involvement on the part of the Council. The same delegate reminded the Council that, having agreed last year to a UNFPA work plan with annual income increases projected at 10 per cent, donors should provide UNFPA with the financial support needed to meet the level of programmes projected in the work plan.

14. Given the lower-than-expected level of income in 1991, most delegations commented on UNFPA's efforts to reduce APSS expenditures below the authorized level. At the same time, however, many of the delegations voiced concern that, despite these savings, the percentage increase of the APSS expenditures was larger than that of the programme in 1991. One delegate, speaking on behalf of several delegations, noted that the Council had expressed a similar concern on this matter last year. He suggested that the Executive Director submits proposals for reductions in the APSS budget for 1994-1995. Two other delegates voiced concern that the increase in the proportion of the APSS budget seemed to be an ongoing trend, rather than a one-time shortfall in resources in 1991.

15. A number of delegations addressed the issue of national execution. One asked why national execution as a proportion of overall execution had decreased from 1990 to 1991. Another observed that it was not easy to increase national execution. A third delegate noted that UNFPA execution consisted of a mixture of procurement for developing countries plus its own project execution activities. He also observed that UNFPA-executed projects, excluding such procurement, had risen from $7.2 million in 1989 to $16.1 million in 1991. One delegate

suggested that, as in the case of UNDP, UNFPA should also pay overheads to those governments that were executing UNFPA financed projects.

16. Two delegates referred to UNFPA's overexpenditure in 1991 in relation to the Fund's operational reserve. They stated that there was no reason to change the level of the reserve prior to the review foreseen in 1993.

17. Two delegates requested information on the possibility of projects being financed by the European Community and on the concept of cost-sharing. Several delegates also commented on the sources of financing for the leaders of the technical support services (TSS) teams. One felt that they should be financed from the APSS budget. Another fully supported UNFPA's position that they should be financed from programme funds, as the total TSS concept and activities were programme-related matters, as had been endorsed by the Council last year.

18. Delegations agreed that implementation of the recommendations of the Auditors was of primary importance. They expressed satisfaction with action taken to date to implement many of the recommendations made, but noted that additional steps were needed.

19. Several delegations spoke in support of UNFPA's desire to enter into standard basic agreements with relevant United Nations executing agencies. One delegate recommended that the standard basic agreement should state clearly that UNFPA will transfer funds to executing agencies only if the agencies provided timely and appropriate reports on project substance and finances. Another delegate stated that it was desirable for UNFPA to conclude similar standard basic agreements with Governments, while others raised a similar point regarding NGOs. In this context, several delegates stressed the need for all executing agents of UNFPA-funded projects (UN executing agencies, governments, NGOs) to submit audited financial statements to UNFPA.

20. One delegation requested more information on the issue of pre-project financing, an area on which the Auditors had expressed some concern. She asked if there had ever been any cases in which advance payments had been returned, as required by the letter of understanding signed by UNFPA and the executing agency and as indicated in paragraph 25 of document DP/1992/33.

21. Two delegations referred to the discussions of UNFPA's audit reports in the Fifth Committee of the forty-sixth session of the General Assembly. One delegate wanted to know specifically what

action UNFPA had taken in response to paragraph 14(b) of General Assembly 46/183, which required that UNFPA develop a clear delineation between programme expenditures and administrative expenditures.

22. A number of delegations emphasised the need to strengthen further financial management and control. In this regard, one delegation sought clarification of the respective responsibilities of the UNFPA Representatives and the UNFPA Country Director.

23. Some delegations commented on the establishment of a UNFPA unit in the UNDP Internal Audit Section, the staffing of which had been approved by the Council last year. The observation was made that UNFPA was taking too long to fill the two staff posts foreseen for that function. One delegate indicated that they had preferred the establishment of a separate audit unit in UNFPA but had, reluctantly, gone along with the consensus last year for the interim arrangement to establish this as part of UNDP's audit set up. He wondered why there was no information on the eventual transfer arrangements and expressed concern about the delays in starting these activities. Another delegate added that this was of extreme concern since, even after 12 months, only one staff member of the audit team had been identified and this unit had not yet started to function.

Reply by the Administration

24. The Deputy Executive Director (Policy and Administration) thanked the delegates for their kind words and constructive criticisms. He mentioned that in the future UNFPA would endeavor to be more prudent in its resource projections. The fact that the 1991 income did not increase as expected was largely due to the appreciation of the US dollar vis-á-vis other currencies during the year. This obliged UNFPA to take a number of measures to adjust administrative and programming activities during 1991. As a result of these measures, although the shortfall in resources amounted to $14 million, UNFPA was able to reduce the overexpenditure to $5 million. The $5 million in overexpenditure would be absorbed in full in 1992. He assured members that major donors would be kept informed of developments in income and expenditure projections on a timely basis.

25. With regard to the increase in the APSS budget, he reiterated the following points: First, UNFPA had endeavoured to minimize expenditure and indeed saved $3 million through delayed recruitment of staff; $0.6 million in expenses for field premises; and $0.4 million in miscellaneous expenses. The Fund

also realized an increase in income of $1 million in overhead costs from the World Bank. The savings and increased income totalling $5 million had been achieved despite mandatory increases in staff costs resulting from decisions of the International Civil Service Commission (ICSC) and the General Assembly. Second, like everyone else, UNFPA suffered from the effects of world-wide inflation, which was estimated at 7.2 per cent in 1991. Third, approximately two-thirds of the increase in the APSS budget (net) was for UNFPA field offices. Finally, the increases that did occur at headquarters were largely due to the strengthening of the Fund's management information system (MIS) and increased staff training.

26. He noted the comments made by delegates on the slight decrease in programme expenditures under national execution and he stressed that national execution depended not only on the capability of a government to execute a project in full, but also on its willingness to do so. In addition, while upholding the principle of promoting national execution whenever feasible, he pointed out that UNFPA uses the national execution modality whenever all aspects of accountability can be met in full.

27. On matters referring to audit issues, the Deputy Executive Director replied that the delay in the recruitment of internal auditors was regrettable, but UNFPA had to depend on UNDP's Division of Personnel for recruitment action. He expected the unit to be functioning around July 1992. However, he underscored that an internal audit unit with two professionals would not be able to adequately cover the activities of UNFPA, which now exceeded $200 million per year. Thus, he alerted the Council that UNFPA might ask for increases in the staff of the unit, as well as for the formal transfer of the unit from UNDP to UNFPA in connection with the submission of the Fund's 1994-1995 budget estimates.

28. With respect to the delineation between programme expenditures and administrative expenditures, the Chief of the Finance Branch replied that UNFPA had done that which was requested, since reports had been issued by UNFPA and accepted by the Council on project staff at headquarters as well as on the financing of publications and other awareness creation activities. He further explained that the Governing Council had been advised on this subject last year and that if there were any further comments by the Auditors during the 1991-1992 audit, the matter would be reported to the Council again. He concluded by by noting that should the auditors require further clarification on these or any related issues, UNFPA would be pleased to comply with these requests.

29. Concerning the payment of overheads to governments executing UNFPA projects, the Deputy Executive Director replied that UNFPA would maintain its current policy of not providing such payments. He did emphasize, however, that UNFPA was willing to provide technical assistance to concerned governments to help them build up their national capacities.

30. In response to the query on the concept of cost sharing, the Deputy Executive Director replied that certain Latin American countries wanted to contribute to projects in their own countries which required simple procedures, and this had led UNFPA to consider "cost-sharing" arrangements in line with the existing UNDP policies and procedures. UNFPA noted that amendments to the Financial Regulations were necessary to enable the Executive Director to enter into cost-sharing arrangements with recipient governments and/or external donors. Concerning the request for more information on the respective responsibilities of the UNFPA Representative and the UNFPA Country Director, the Deputy Executive Direrctor explained that the ultimate responsibility in the field lay with the UNFPA Representative and that UNFPA was implementing appropriate control measures in this regard.

31. The Deputy Executive Director reiterated the need for increased resources in view of the urgent need to solve the population problems of the developing countries.

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CHAPTER II. United Nations Population Fund

ANNEX

United Nations Population Fund: financial, budgetary and administrative matters

The Governing Council,

Having considered the annual financial review, 1991 (DP/1992/32) and the audit reports (DP/1992/33),

Having taken into account the views and comments of members of the Governing Council on the documentation before it,

1. Takes note of the annual financial review (DP/1992/32), the audit reports (DP/1992/33) and the interim report of the Board of Auditors on the United Nations Population Fund for the first year of the biennium 1990-1991 (A/46/5/Add.7);

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2. Notes with concern that UNFPA's expenditure in 1991 exceeded its income and that UNFPA's actual income in 1991 and currently projected income for 1992 fall considerably short of UNFPA's original estimates; and urges UNFPA to ensure that future estimates of its income are soundly based and reflect actual trends and that future expenditure plans accord with these estimates;

3. Requests the Executive Director to strengthen further the internal financial management and control of the United Nations Population Fund, bearing in mind the need for enhanced cost-effectiveness;

4. Further requests the UNFPA to keep Council members informed of income and expenditure projections;

5. Further takes note with concern the continued increase in the proportion of United Nations Population Fund's administrative expenditures in relation to the total programme expenditures and requests the Executive Director, when formulating the 1994/1995 APSS biennial budget, to reflect the need to contain administrative expenditures;

6. Confirms decision 91/36, paragraph 19, on the level of the operational reserve;

7. Approves the following new regulation of UNFPA's Financial Regulations and Rules:

"Regulation 8.9: Agreements shall be entered into between UNFPA and Executing Agencies which are organizations of the United Nations system, specifying the general terms and conditions which are to govern UNFPA's assistance to projects for which those organizations have been designated as executing agencies";

8. Requests the Executive Director, to submit to the Governing Council at its fortieth session proposed amendments to the financial regulations of UNFPA which upon consideration by the Governing Council at that session would permit the Executive Director to enter into cost-sharing arrangements with recipient governments and/or with external donors.

9. Notes the steps already taken by the Executive Director, within her competence, to implement previous recommendations of the Board of External Auditors in response to paragraphs 14 and 17 of General Assembly Resolution 46/183 of 20 December 1991;

10. Requests the Executive Director to take the additional steps required to implement the remaining recommendations of the Board of Auditors;

11. Urges the Executive Director to implement Council decision 91/36 paragraph 13 on internal audit without delay.